BUDGET, FINANCE AND INVESTMENT COMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

A meeting of the Budget, Finance and Investment Committee of the Board of Trustees of the University of Vermont State and Agricultural College was held on Friday, February 9, 2024, at 1:00 p.m., in the Livak Ballroom, 417-419 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Don McCree[1], Vice Chair John Dineen[1], President Suresh Garimella, Susan Brengle, Robert Brennan, Frank Cioffi[2], Kenny Nguyen, Ed Pagano[1], Shap Smith, and Catherine Toll

REPRESENTATIVES PRESENT: Faculty Representative Guillermo Rodriguez, Foundation Representative Bob Plante[1,] Alumni Representative Myron Sopher, Staff Representative Kunie Renaud, Student Representatives Evan Siegel[4] and Ashleigh Clark, and Graduate Student Representative Goodness Rex Nze-Igwe

PERSONS ALSO PARTICIPATING: Board Chair Ron Lumbra[3], Vice President for Finance & Administration Richard Cate, University Budget Director Shari Bergquist, and University Controller Claire Burlingham

ABSENT: Trustees Kevin Christie and Tristan Toleno, Faculty Representative Jane Knodell, Staff Representative Aimee Gale, and Student Representative Dan Peipert

[1]Participated via remote conferencing.
[2] Joined the meeting at 1:15 p.m.
[3] Joined the meeting at 1:05 p.m.
[4]Joined the meeting at 1:08 p.m.

Chair Don McCree called the meeting to order at 1:02 p.m.

Approval of minutes

A motion was made, seconded, and voted to approve the minutes of the October 20, 2023, meeting.

Debt policy annual review

University Controller Claire Burlingham noted that this committee is required to approve any recommended changes to, or reaffirm, the university's debt policy annually. The administration consulted with UVM's debt advisors, the Yuba Group, and is seeking approval of two non-substantive revisions to the policy, included as appendix A.

Referencing attachment 3 in the meeting packet, Controller Burlingham reported on the university's debt ratio analysis. The Total Cash and Investments to Debt is a leverage ratio and is well within UVM's target of >1.25%. The Debt Burden ratio is a measure of debt service over operating expenses. This ratio has increased from 4.9% in FY22 to 5.5% in FY23 even though the university has not taken on new debt. The reason for the increase is twofold, first the total debt service increase is due to the recognition of operating lease payments and IT subscription payments as required by new Governmental Accounting Standards Board rules. Secondly, the effect of the decrease in the Other Post Employment Benefits liability of $240 million reduced our total expenses. Even with the ratio at 5.5% the university is still within the required policy target of <5.75% and is at about the medium range compared to peer institutions.

The following resolution was presented to the committee:

> **Resolution approving revisions to the Debt Policy**
>
> WHEREAS, in September 2004, the Board of Trustees adopted a Debt Policy to guide the portfolio management of debt, to be reviewed annually; and
>
> WHEREAS, since its creation in 2006, the Budget, Finance, and Investment Committee has been charged with the annual review of the Debt Policy, which it most recently revised in February 2022;
>
> BE IT RESOLVED, that the Board of Trustees hereby accepts revisions to the policy, appearing as Appendix A to this document.

A motion was made, seconded, and it was unanimously voted to refer the resolution to the Board for approval.

Action Items

Vice President Richard Cate explained that contracts that meet the threshold for Board approval are presented at the monthly Executive Committee meetings. However, the January meeting was canceled and the March meeting is replaced by a special Board meeting. Therefore, the following are being presented today:

- A three-year contract extension approval with American Chemical Society for subscription fees which includes ACS All Publications Access to journal content, e-books, and an online reference guide that focuses on scientific publishing, new topics, and core techniques in the sciences.
- A contract with Presidio Networked Solutions for network equipment for firewall security, updated wireless access, and network switching equipment.

UVM is replacing the campus wide aging Nortel system equipment installed in 1998 that will be fully decommissioned by end of 2024.

- A contract with The Yuba Group LLC, who has provided outstanding debt advisory consulting services to the university for many years and recently submitted the more attractive bid to continue the contract. Both Vice President Cate and Chair McCree commented on their excellent service.

In addition, the administration is seeking approval to proceed with negotiations to lease apartment-style housing in South Burlington (former Holiday Inn site), that would accommodate about 160 undergraduate students. The lease would run from Spring 2024 to Summer 2027 to bridge the time until Catamount Woods, a new housing project under construction, is fully operational. This leased space would operate similarly to a residential hall, with Residential Assistants living in the building.

Lastly, the committee considered a resolution setting Vermont resident and non-resident tuition rates at $975 per credit for the Sustainable Innovation Masters in Business Administration (SI-MBA) program for two fiscal years (FY26 and FY27). This rate falls between the university's standard Vermont resident rate of $678 per credit and non-resident rate of $1,720 per credit, with the goal of setting a uniform price for the entire degree program for all students at $43,875. Creating this single rate for all SI-MBA students requires the Board to approve an upward adjustment of the resident per credit rate from $678 to $975 for this graduate program.

The following resolutions were presented for the committee's consideration:

Resolution approving contract extension with American Chemical Society

BE IT RESOLVED, that the Vice President for Finance and Administration, or his successor or designee, is hereby authorized to enter into a contract extension with American Chemical Society for subscription fees beginning January 1, 2024 through December 31, 2026, for an amount not to exceed $325,000.

Resolution approving contract with Presidio Networked Solutions

BE IT RESOLVED, that the Vice President for Finance and Administration, or his successor or designee, is hereby authorized to enter into contract with Presidio Networked Solutions for telephony licensing and support beginning March 2, 2024 through March 1, 2029, for an amount not to exceed $1,200,000.

Resolution approving contract with The Yuba Group, LLC

BE IT RESOLVED, that the Vice President for Finance and Administration, or his successor or designee, is hereby authorized to enter into a contract with The Yuba Group, LLC for debt advisory consulting services beginning March 1, 2024 through February 28, 2027, with two one-year renewal options, for an amount not to exceed $465,000 in aggregate.

Resolution approving the Sustainable Innovation Masters in Business Administration (SI-MBA) graduate tuition for fiscal year 2025

BE IT RESOLVED, that the Board of Trustees hereby approves a uniform rate of $975 per credit for both in-state and out-of-state students in the Sustainable Innovation Masters in Business Administration Program effective with the 2025-2026 and 2026-2027 academic years.

A motion was made, seconded, and it was unanimously voted to refer the resolutions to the Board for approval.

Vice President Cate introduced the following resolution:

Resolution authorizing negotiation and execution of real estate contract

BE IT RESOLVED, that the Board of Trustees hereby authorizes the Vice President for Finance and Administration, or his successor or designee, to negotiate, finalize, and execute agreements regarding the leasing of real estate, located at 1068 Williston Road, South Burlington, VT, on the material terms and conditions reported on this date.

Following a brief discussion, a motion was made, seconded, and the following roll-call vote was taken: Don McCree – yes, John Dineen – yes, Susan Brengle – yes, Robert Brennan -yes, Frank Cioffi – no, Kenny Nguyen – yes, Suresh Garimella – yes, Ed Pagano – yes, Shap Smith – yes, and Catherine Toll – yes. By a 9-1 vote, the resolution was referred to the Board for approval.

Report of the Investment Subcommittee (ISC)

ISC Chair Rob Brennan referred committee members to the supplemental performance update report (sent under separate distribution) provided by Prime Buchholz, the university's investment advisor. UVM's endowment continued a consistent uptick in performance. The market value of the endowment as of December 31, 2023, was $812.4 million in the long-term pool, and about $50 million in philanthropic assets/investments.

ISC Chair Brennan next outlined the history of and the proposal to disband the Investment Subcommittee. The University of Vermont Investment Management Company (UVIMCO) was created in February 2023 to oversee and manage the combined endowment assets of the University and the UVM Foundation. An Investment Management Agreement executed in January 2024 protects the University's interests, including without limitation, the university's interests in receiving information about the activities, affairs, and financial condition of UVIMCO and the funds it manages for the benefit of the University. Therefore, the need for the ISC has become obsolete.

Vice President Cate and Chair McCree publicly lauded Trustee Brennan's tireless leadership and expertise he has provided to the ISC over the years.

The following resolution was presented:

Resolution disbanding the Investment Subcommittee

WHEREAS, on November 11, 2006, the Investment Subcommittee ("ISC") was established by the Board of Trustees as a Subcommittee of the Budget, Finance and Investment ("BFI") Committee and charged with oversight of investment strategy, and the hiring, and termination of managers and advisors engaged in the investment of the University's Long-Term Investment Pool, including the Endowment Fund; and

WHEREAS, the ISC was assigned the responsibility for adjusting individual investment allocations to conform to the University's asset allocation policy, and regular review of investment related policies and directed to make recommendations on such to the BFI Committee for its consideration and referral to the Board for action; and

WHEREAS, the ISC was authorized to make decisions relating to investment managers and investments that are necessary in the best interests of the University with a report of such to the BFI Committee; and

WHEREAS, in February 2013, the ISC charge was amended to include responsibilities assigned to it under an Investment Management Agreement between the University and the University of Vermont Foundation under which Foundation assets are co-invested with the assets of the University; and

WHEREAS, in 2022, an advisory committee comprised primarily of current and former university trustees carefully studied mechanisms for the University and the University of Vermont Foundation to combine endowment assets and establish a nonprofit investment management subsidiary of the Foundation to oversee and manage the combined endowment assets in order to best meet the fiduciary responsibilities of the University and the Foundation; and

WHEREAS, on February 11, 2023, the Board of Trustees authorized the creation of an investment subsidiary company, the University of Vermont Investment Management Company ("UVIMCO"), to oversee and manage the combined endowment assets of the University and the Foundation; and

WHEREAS, the Operating Agreement for UVIMCO requires a nine-member Board of Managers, four classified members appointed by the Foundation's Board of Directors, three classified members appointed by the University of Vermont Board of Trustees, and the University's President and the Foundation's President and CEO as *ex officio* members; and

WHEREAS, on April 17, 2023, the Foundation Board of Directors authorized the creation of UVIMCO and approved the appointments of Robert Brennan, Robert Cioffi, Meg Guzewicz, and H. Whitney Wagner as members of the Board of Managers; and

WHEREAS, on May 20, 2023, the University of Vermont Board of Trustees approved the appointments of Susan Brengle, David Daigle, and Don McCree as members of the Board of Managers; and

WHEREAS, on January 30, 2024, an Investment Management Agreement was executed between UVIMCO and the University that protects the University's interests, including without limitation, the University's interests in receiving information about the activities, affairs and financial condition of UVIMCO and the funds it manages for the benefit of the University;

THEREFORE, BE IT RESOLVED, that the Board of Trustees hereby disbands the Investment Subcommittee, with thanks to its current and former members for their service, including: Chairs Rob Brennan, Rob Cioffi, David Daigle, and Sam Bain; and members, Briar Alpert, David Aronoff, Susan Brengle, Jeff Davis, Susan Hudson-Wilson, Don McCree, John Snow, and Jeannette White; and

BE IT FURTHER RESOLVED, that any responsibility and authority previously delegated to the Investment Subcommittee, which has not otherwise been assigned to UVIMCO by contract shall be the responsibility and authority of the BFI Committee, which shall have the authority delegated to it by Article VII of the University Bylaws.

A motion was made, seconded, and it was unanimously voted to refer the resolution to the Board for approval.

Fiscal year 2025 budget

University Budget Director Shari Bergquist discussed the key assumptions in developing the fiscal year 2025 budget thus far.

- A 3.5% tuition increase for out-of-state students and the implementation of a new $1,000 program fee for majors within the College of Nursing and Health Sciences, the College of Engineering and Mathematical Sciences, and the Grossman School of Business. As of now, the anticipated size of the entering undergraduate class is approximately 3,000; however, May 1, 2024 is the deadline that students must pay their acceptance fee to guarantee enrollment for the fall semester. Enrollment updates will be presented at the May 2024 Board meeting. Because of these changes, growth in undergraduate net tuition and fees is expected.
- For FY 2025, the governor has recommended a 3% increase to the university's state appropriations; however, because this may not be officially approved by the legislature until May, we have not yet included this in the FY 2025 budget.
- A slight growth in Facilities and Administration cost recovery revenue is expected based on an increase in grant activity and slight growth in the return of cash investments.
- Of note, healthcare costs have risen dramatically which has considerably influenced the medical component of the active employee full-time fringe rate. As such, the FY 2024 fringe rate of 43.8% is expected to increase to 52.5% in FY 2025.
- Even with a 6% increase in electricity, the utilities budget is projected to be decreased overall by 3.1% as a result of a cost reduction in natural gas.

The formal FY 2025 budget will be presented for Board of Trustees' approval in May 2024.

Vice President's Report

Vice President Cate reminded members that his Vice President's report was submitted in the materials as attachment 4 and includes an annual update on the annual Green Revolving Loan Fund and status updates university building projects.

Adjournment

There being no further business, the meeting was adjourned at 2:02 p.m.

Respectfully submitted,

Don McCree, Chair

University of Vermont
Debt Policy

As Adopted by the Board of Trustees
September 2004
Revised, November 2005
Revised, November 2006
Revised, December 2007
Reaffirmed, December 2008
Revised, October 2009
Revised, October 2010
Reaffirmed, October 2011
Revised, May 2013
Revised, February 2014
Revised, February 2015
Reaffirmed, February 2016
Revised, February 2017
Reaffirmed, February 2018
Revised, February 2019
Reaffirmed, January 2020
Reaffirmed, February 2021
Revised, February 2022
Revised, February 2023
Revised, February 2024

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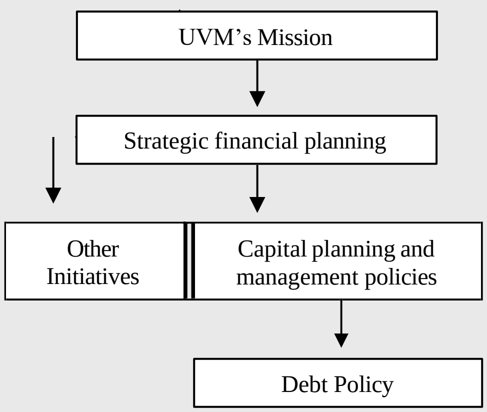
Overview

Purpose

1. Articulate the role of UVM's debt policy within the strategic planning process.



The University of Vermont's strategic planning is a long-term process that establishes University-wide priorities as well as University and divisional programmatic objectives. The University's strategic plan identifies specific goals and initiatives, including capital plans, that identify necessary and desired University facility investments. To fund its plan, the University will continue to utilize a mix of financing sources including State and Federal sources, philanthropy, internal reserves, public-private partnerships, and external University-supported debt, including leases.

This policy, in conjunction with the strategic and capital planning, will aid management in ensuring that an appropriate mix and types of funding sources are utilized and that the University's debt capacity is allocated strategically. A UVM-specific debt policy is appropriate to ensure adequate financial strength to service existing and proposed debt, maintain leverage within an acceptable risk tolerance while investing in priority capital projects, maintain a strong financial profile to ensure a competitive position relative to its peers, and maintain the budgetary capacity to invest in other initiatives.

Management and the Board of Trustees, acting through the appropriate Board of Trustee committee, will assess this policy on an ongoing basis to ensure that it remains responsive to UVM's evolving academic, research and strategic priorities and financial position.

The University believes that financial discipline is a critical component of long-term debt management and that the Board and management, operating through the appropriate Board of Trustee committee, should establish a limited number of financial ratios and limits in order to manage debt within acceptable ranges consistent with UVM's objectives. These measures will be monitored and reported on in light of UVM's evolving strategic initiatives and capital needs.

INTRODUCTION AND OBJECTIVES

Purpose

1. Articulate UVM's philosophy regarding debt.
2. Establish objectives for debt policy.
3. Provide for regular review and potential update of policy to reflect evolving needs.

Just as investments represent an integral component of assets, debt is viewed to be a long-term component of liabilities that, therefore, should be managed on a long-term portfolio-basis consistent with the institution's policy objectives, with an overarching objective of managing the balance sheet. The objectives of the policy are to:

(i) Maintain the University's access to capital. Management will utilize and issue debt in order to provide timely access to capital to fund project priorities that have been approved by the Board;

(ii) Manage the University's credit to meet its long-term strategic objectives while maintaining creditworthiness consistent with the most favorable relative cost of capital and borrowing terms.

(iii) Manage risk of the University's debt portfolio within acceptable limits. Debt will be managed on a portfolio, rather than a transactional or project-specific, basis. Management's continuing objective of incurring the lowest achievable long-term risk-adjusted cost of capital will be balanced with the goal of appropriately limiting exposure to market shifts within acceptable budgetary parameters. Various types of debt structures and financial instruments will be considered, monitored, and managed within the framework established in this policy and according to internal management procedures; and

(iv) Permit the optimization of the investment of the University's working capital and cash balances. Management will explore various options and alternatives to internal cash holdings regarding the optimal funding mechanism for short-term equipment needs, bridge financing and cash requirements. Management recognizes that working capital requirements, debt management, and the investment of cash/net assets should be viewed comprehensively in order to optimize overall funding and investment return strategies.

In addition to establishing a framework relating to the administration of debt, the policy provides for periodic updates pertaining to UVM's debt capacity and financial management to both internal and external parties.

OVERSIGHT

Purpose

1. Provide mechanism for oversight and review on periodic basis.
2. Provide management flexibility to make ongoing financing decisions within the framework of the policy.

By adopting this policy and regularly reviewing it with the appropriate Board of Trustee committee, management will follow and report on guidelines and requirements regarding debt utilization. With appropriate authorizations consistent with the policy, management will have flexibility to implement specific financial transactions and utilize approved financing vehicles in accordance with stated procedures.

The Office of the Vice President for Finance and Administration will manage all funding sources, including debt, for capital projects authorized by the Board. The structure of any individual transaction (e.g., maturity, interest rate mode, use of derivative products, other financing structures) will be based upon overall University needs to ensure that (i) long-term costs to the University and its operating units are minimized consistent within the context of other strategic objectives and (ii) overall risk does not exceed acceptable levels as defined in this policy.

Because this debt policy is a living document, the appropriate Board of Trustee committee will review this policy on an annual basis and report any recommended changes or revisions to the Board of Trustees. This review process is necessary to ensure that the policy remains consistent with the University's objectives and responsive to evolving practices, competitive pressures in the external environment, and financial indicators.

POLICY RATIOS

Purpose

1. Identify core ratios.
   a. Operating Statement—Debt Burden Ratio.
   b. Balance Sheet Leverage—Leverage Ratio.
2. Clearly communicate with key parties such as rating agencies the University's philosophy regarding debt and management's ongoing assessment of debt capacity and affordability.

This policy establishes limits to measure the total amount of outstanding debt and leases compared to University balance-sheet resources and the annual operating budget.

These ratios can be derived from the financial statements and other information and are subject to review periodically. The ratios are to be calculated using annual audited financial statements of the University and should not include "Discretely Presented Component Units" of the University such as the University's associated fundraising foundation.

The policy identifies ratios that (i) are based on current GAAP requirements and (ii) are consistent with ratios utilized in the higher education industry to permit benchmarking.

In addition to the two primary policy ratios below, the University may consider tracking other ratios in addition to the policy ratios. Listed below are the policy ratios and limits that will be followed.

Ratio 1 – Debt Burden Ratio

This ratio measures the University's ability to repay debt service associated with all outstanding debt and leases and the impact on the overall budget and includes all activities of the University. The defined limit for this ratio is intended to maintain the University's long-term operating flexibility to fund existing requirements and new initiatives, although the University may target a desired ratio below this limit.

$$\frac{\text{ANNUAL DEBT SERVICE}}{\text{TOTAL EXPENSES}} \quad <5.75\%$$

The measure is based on aggregate operating expenses as opposed to operating revenues because expenses typically are more stable (e.g., no one-time operating gifts, investment return, variability of State funding) and better reflect the operating base of the University. Management recognizes that a growing expense base would make this ratio appear more attractive. The limit for this ratio is not to be greater than 5.75%. This ratio will be adjusted to include the impact of non-amortizing or non-traditional debt structures that could result in significant single year fluctuations, as well as an assumption of an appropriate variable rate.

Ratio 2 - Leverage Ratio (calculated as Total Cash and Investments to Debt)

This ratio indicates one of the most basic determinants of financial health by measuring ~~the availability of~~ University resources compared to aggregate debt. The ratio measures the medium to long-term health of the University's balance sheet and debt capacity and is a critical component of universities with the highest credit quality.

Many factors influence the leverage ratio, affecting both the assets (e.g., investment performance, philanthropy) and liabilities (e.g., timing of bond issues), and therefore the ratio is best examined in the context of changing market conditions so that it accurately reflects relative financial strength. For example, a leverage ratio that is acceptable and entirely appropriate in one market condition may be relatively stronger or weaker in other market environments.

This policy establishes a debt policy limit (floor) for this ratio of 1.25 to ensure that sufficient balance sheet strength is maintained at all times.

$$\frac{\text{TOTAL CASH \& INVESTMENTS}}{\text{AGGREGATE DEBT}} \geq 1.25\text{x}$$

This ratio will include any financings that impact the University credit, including guarantees of third-party debt.

The 1.25x limit is recognized as a limit, and not a long-term objective. Over time, to remain competitive and retain the flexibility to invest in future strategic initiatives, UVM will want to target and maintain a ratio above 1.25x.

Annually, based on the results of the audited financial statements, the Vice President for Finance and Administration will report to the appropriate Board of Trustee committee on the actual ratio results and any existing conditions that put the University out of compliance with this policy. In the event that the University is out of compliance with the policy, the appropriate Board of Trustee committee will take up the matter for consideration and make recommendations it deems appropriate to the Board of Trustees.

Ratios as a Credit Factor

The University has established its ratios and associated ratio limits based on internally established guidelines. The ratios and limits are not intended to provide a long-term target or track a specific rating, but rather will enable the maintenance of the University's competitive financial profile and complement the capital planning process.

The debt policy will be shared with external credit analysts and other third parties in order to provide them with the context regarding UVM's assessment of self-determined debt capacity and affordability, which is subject to ongoing review.

TYPES OF FINANCINGS

Purpose

1. Review of all potential funding sources for projects.
2. Maximize tax-exempt University-issued debt.
3. Commercial Paper program.
   a. Provide bridge funding.
   b. Provide continual access to capital.
   c. Issuance on a taxable or tax-exempt basis.
4. Manage derivative products, including swaps.
5. Consider other financing sources.
   a. Management will explore securitizations, joint ventures and other financial structures to provide for the optimal funding for any project.

The University recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources will be reviewed by management within the context of the debt policy and the overall portfolio to ensure that any financial product or structure is consistent with UVM's objectives. Regardless of what financing structure(s) is(are) utilized, a full understanding of the transaction, including (i) quantification of potential risks and benefits, and (ii) analysis of the impact on University creditworthiness and debt capacity, will be required. Any financial transaction which, in management's opinion, utilizes the University's credit, will be subject to the limits set forth in this policy regardless of source.

Tax-Exempt Debt

The University recognizes that debt will remain a long-term component of the University's capitalization over the foreseeable future due in part to its continued need for capital and the substantial economic benefits associated with tax-exempt debt. Therefore, financial transactions will be managed on a portfolio basis with a long-term perspective. (In all circumstances, however, individual projects must continue to be identified and tracked to ensure compliance with all tax and reimbursement requirements).

Debt will be structured to meet the University's comprehensive long-term objectives, and each project being financed will be required to provide a sound business plan, including the source of repayment for the debt and appropriate and realistic repayment terms. Among other things, the repayment terms will require that the loan term is no greater than the expected componentized useful life of the asset financed. Additionally, the financed project will be required to budget and fund principal payments on a fully amortized basis.

Taxable Debt

While all of the University's capital projects may not qualify for tax-exempt debt, taxable debt should only be used in appropriate cases as it generally represents a more expensive source of capital relative to tax-exempt issuance. Examples of appropriate cases to utilize taxable debt include timing, fees and rates relative to tax-exempt rates, the nature of the project being funded, and private use, among others.

Commercial Paper (CP) & Lines of Credit (LOCs)

The CP program and lines of credit can provide substantial financial flexibility to the University including the ability to manage and optimize cash balances and provide an alternative to lease transactions and other purposes. CP and LOCs can offer the University interim financing for capital projects in anticipation of the receipt of funding either in the form of future philanthropy or the issuance of long-term debt for permanent financing, as well as offer greater flexibility regarding the timing and structuring of individual bond transactions.

Derivative Products

Management recognizes that derivative products may enable more opportunistic and flexible management of the debt portfolio. Derivative products, including interest rate swaps, may be employed primarily to manage or hedge the University's interest rate exposure for a specific period of time. The University will utilize a framework to evaluate potential derivative instruments through consideration of (i) its variable rate allocation, (ii) market and interest rate conditions, (iii) impact on future financing flexibility, and (iv) the compensation for assuming risks, or the costs for eliminating certain risks and exposure. In addition, the University will analyze and quantify the cost/benefit of any derivative instrument relative to achieving desirable long-term capital structure objectives. Under no circumstances will a derivative transaction be utilized that is not understood fully by management or that imposes inappropriate risk on the University. Risks include but are not limited to tax risk, interest rate risk, liquidity risk, counterparty credit risk, basis risk, and any other potential risks either imposed or removed through the execution of any transaction. In addition, management will consider and disclose the potential impact of any derivative product on the University's financial statements and the appropriate treatment in calculating the debt policy ratios. The University will regularly report on the status and performance of its derivative products, if any, to the appropriate Board of Trustee committee. Given the risks and complexity associated with derivative products, they will be considered more seriously only when: (i) conventional financing sources are relatively more expensive (e.g. exceed the portfolio blended interest rate), and (ii) can achieve desired financial objectives more efficiently or at a significantly lower risk-adjusted cost than traditional structures. Management is required to present any recommended derivative product to the appropriate Board of Trustee committee and must receive Board approval prior to execution.

Other Financing Sources

The University recognizes that a variety of transactions, not limited to debt insured directly by UVM, may impact the University's credit while the University's limited debt capacity and substantial capital needs require the consideration of various financing alternatives, including possible opportunities for alternative and non-traditional transaction structures. The University recognizes these types of transactions may also impact the University's credit and also often can be more expensive than traditional University debt structures.

Therefore, all non-traditional financing structures including guarantees and third-party debt can only be considered once the economic benefit and the likely impact on the University's debt capacity and credit has been determined. Specifically, for any third-party or developer-based financing, management will ensure the full credit impact of the structure is evaluated and quantified to the extent possible prior to execution and the analysis must be presented to the appropriate Board of Trustee committees and must receive Board approval prior to execution.

PORTFOLIO MANAGEMENT OF DEBT

Purpose

1. Permit decisions regarding debt issuance and structure to be made on a portfolio basis, rather than on a per-project basis.
2. Manage variable rate exposure of the debt portfolio.
   a. Limit variable rate exposure.
   b. Manage the overall liquidity requirements associated with outstanding debt.
   c. Target overall variable rate debt exposure.
3. Evaluate exposure to other financing vehicles and third parties on a portfolio-wide basis.

The University considers its debt portfolio holistically; that is, it optimizes the portfolio of debt for the entire University rather than on a project-by-project basis and takes into account the University's cash and investments.

Variable Rate Debt

It is recognized that a degree of exposure to variable interest rates within the University's debt portfolio may be desirable in order to:

(i) take advantage of repayment/restructuring flexibility;

(ii) benefit from historically lower average interest costs;

(iii) diversify the debt portfolio; and,

(iv) provide a hedge to short-term working capital balances

Management will monitor overall interest rate exposure, analyze and quantify potential risks, and coordinate appropriate fixed/variable allocation strategies. The portfolio allocation to variable rate debt may be managed or adjusted through (i) the issuance of debt (potentially new issues and refunding), (ii) and the use of interest rate swaps and other derivative products. While the utilization of commercial paper impacts the University's variable rate exposure, outstanding CP will not be included in the ratio, given the expected interim financing purpose.

Recognizing the desire to manage interest rate risk, the amount of variable rate debt outstanding shall not exceed 35% of the University's outstanding debt. This limit is based on the University's desire to (i) limit annual variances in its debt service, (ii) provide sufficient structuring flexibility to management, (iii) keep the University's variable rate allocation within acceptable external parameters, (iv) utilize variable rate debt (and/or swaps) to optimize debt portfolio allocation and minimize costs, and (v) take into account liquidity needs and exposures for the portfolio, including consideration of the commercial paper program.

$$\frac{\text{VARIABLE RATE AND LIQUIDITY EXPOSURE}}{\text{TOTAL LONG-TERM DEBT OUTSTANDING}} \quad >35\%$$

The University will exclude from this calculation project-related commercial paper used in advance of expected long-term financing since this commercial paper is used for interim purposes and should not be included in the University's desired long-term variable rate allocation calculation. The numerator, *Variable Rate and Liquidity Exposure*, is defined as including all variable rate debt, not adjusted for any floating to fixed swaps, if any, and plus any fixed to floating swaps, if any. Thus, any variable rate debt that is affected by floating-to-fixed interest rate swaps will be considered variable rate debt for the purposes of this calculation since it impacts the University's liquidity requirements and exposes the institution to counterparty credit exposure. Note that this ratio measures interest rate exposure and liquidity exposure/requirements directly.

GLOSSARY

Annual Debt Service – refers to the planned principal and interest paid on long-term debt in a fiscal year.

Bridge Financing – refers to any type of financing used to "bridge" a period of time. For universities, it generally refers to financings that provide funding in advance of a long-term bond issue or the receipt of gift funding.

Capital Project – refers to physical facilities or equipment or software that may be capitalized.

Commercial Paper – an alternative to bank lines for stronger rated borrowers, commercial paper is short-term promissory notes issued on the open market as an obligation of the borrower. The maturity of commercial paper is less than 270 days, and for most universities, the average maturity of all paper is between 30-50 days. Registration and disclosure for commercial paper is significantly less than traditional university bonds.

Derivative Products – generally referred to transactions which are an exchange of specified cash flows for a period of time. The most common types of derivatives are floating-rate-to-fixed-rate or fixed-rate-to-floating-rate swaps.

GAAP – refers to Generally Accepted Accounting Principles.

Leverage – long-term debt as a component of the total assets of the University. "High leverage" indicates an institution that has a considerable portion of its assets that are debt financed.